

Bulletin 88-1

Supersedes Bulletin 87-7 issued December 3, 1987

SUSPENSION OF THE ACCEPTANCE OF CONSOLIDATED OR COMBINED AUDITS  
EFFECTIVE YEAR END 1988.

Minnesota Statutes Section 60A.13, subd. 3a, requires every insurance company doing business in this state to have an annual audit by an independent certified public accountant.

The Department of Commerce, on occasion, has waived the statute pursuant to Minnesota Rules Part 2710.1500 to permit insurers to file financial statements on a consolidated or combined basis in lieu of separate audited financial statements. However, the number of recent insolvencies and the tendencies of some CPA's to treat smaller insurance subsidiaries as immaterial has mandated that this practice not be continued. As a one time phase-in every insurance company required by law or rule to file will be required to submit a separate annual report, audited by an independent certified public accountant, as follows:

1989 Filing - 1988 Balance Sheet Only

1990 Filing - 1988 and 1989 Balance Sheet,  
1989 Statement of Operations, and  
1989 Statement of Cash Flow.

1991 Filing - Complete comparative Financial Statements for  
1990 and 1989.

Exceptions to this policy will be allowed only where it can be demonstrated that a company in a group has a pooling or 100 percent reinsurance agreement used in a group which substantially affects the solvency and integrity of the reserves of the company or where it is only the parent company of a group which is licensed to do business in Minnesota. If these circumstances exist, then the company may file a written request pursuant to Minn. Rules Part 2710.1500 to file consolidated or combined audited financial statements.

CERTIFICATION BY ACTUARY WITH REGARD TO RESERVES REQUIRED AT YEAR  
END 1988.

Pursuant to Minnesota Rules Part 2710.1200, balance sheets dated on or after December 31, 1988 submitted as part of the CPA audited annual financial report must include at least once every three years a reserve certification by an independent actuary.

- A. Property and casualty companies: All companies required to file an annual audited financial report whose total net earned premiums for Schedule P lines (Schedule P, Part 1, column 2, current year premiums earned, from the company's most currently filed Annual Statement) equal one-third (1/3) or more of the company's total net earned premium (Underwriting and Investment Exhibit, Part 2, column 4, total line, of the Annual Statement) must comply with this order. Each company's loss reserves and loss expense reserves must be certified

by an independent actuary at least once every three years. Note: Companies writing reinsurance only are not exempt from this requirement. The certification must contain the following statement:

"The loss reserves and loss expense reserves have been examined and found to be calculated in accordance with generally accepted actuarial principles and practices and are fairly stated."

- B. Life insurance companies: All companies required to file a CPA audited annual financial report whose premiums and annuity considerations from Accident and Health premiums (Exhibit 1, Part 1, Column 8, 9 & 10, line 20d) equal one-third (1/3) or more of the companies total premiums and annuity considerations (Page 4, column 1, line 1) must comply with this bulletin. Each company's policy and contract claims reserves for Accident & Health as included in Page 3 Column 1, lines 2 and 4.2 must be certified by an independent actuary at least once every three years. The certification must contain the following statement:

"The policy and contract claims reserves for Accident and Health have been examined and found to be calculated in accordance with generally accepted actuarial principles and practices and are fairly stated."

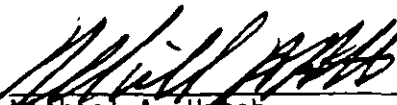
An actuary is defined under Rule 2700.0600 to be a member of the American Academy of Actuaries or an individual who has demonstrated to the satisfaction of the Commissioner of Commerce that he or she has the educational background necessary for the practice of actuarial science and that he or she has not less than seven years of actuarial experience.

Independent means not a salaried employee of the company.

The certification of reserves requirement shall be considered to be satisfied through a letter of qualifications certifying that at least one member of the audit engagement team is an independent and qualified actuary.

Questions with regard to a determination as to a qualified independent actuary may be submitted in writing to:

Rochelle Bergin  
Department of Commerce  
500 Metro Square Building  
St. Paul, MN 55101  
(612) 296-2630

  
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Michael A. Hatch  
Commissioner